

MAXIMUS

California Healthy Families Project

Internal Audit
Financial Operations Processes

March 31, 2009

Internal Audit – Financial Operations Controls
March 31, 2009

TABLE OF CONTENTS

SECTION	PAGE
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SECTION ONE – INTERNAL AUDITOR’S REPORT	1
SECTION TWO – EXECUTIVE SUMMARY	2
Overview	2
Assertions, Tests and Results	2
Recommendations	5
MAXIMUS Response to Recommendations.....	6
SECTION THREE – SCOPE AND OBJECTIVE	7
Scope of the Internal Audit	7
Internal Audit Objective	7
SECTION FOUR – RESULTS	8
Posting Integrity	8
Postings form Subsidiary Ledgers and Financial Reconciliations.....	11
Accuracy of Participant Invoice and the Related Financial Posting	14
Refunds.....	16
Reporting Accuracy	17

SECTION ONE

Internal Auditor's Report

SECTION ONE – INTERNAL AUDITOR’S REPORT

Mr. Bruce Caswell, President, MAXIMUS Operations Group
Reston, Virginia

We have performed tests of management’s assertions (Section Four) about the internal control structure with respect to the financial operations processing performed by the MAXIMUS California Healthy Families Project (the Project) during the period of January 1, 2009 to March 31, 2009, and its compliance under contract 02MHF026 (Contract) with the State of California Managed Risk Medical Insurance Board (MRMIB) (Specified Requirements) related to the California Healthy Families program. We have also performed tests of the compliance with the Project’s Business Rules, Process Procedures and Work Instructions over financial operations processing. The Project’s Business Rules, Process Procedures and Work Instructions are meant to assure compliance by the Project with the Contract requirements. Management of the Project is responsible for the Project’s compliance with the Contract requirements. The sufficiency of the tests is solely the responsibility of Management. Consequently, we make no representation regarding the sufficiency of the procedures for the purpose for which this report has been requested or for any other purpose.

Because of inherent limitations in any internal control structure, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We found no exceptions to management’s assertions (Section Four) with respect to the internal control structure of financial operations processing performed by the Project and its compliance with the Specified Requirements related to the Programs during the period January 1, 2009 to March 31, 2009, and compliance with the Project’s Business Rules, Process Procedures and Work Instructions over financial operations processing.

This report is intended solely for the information and use of MAXIMUS Operations Group, the MRMIB, and the auditors of the State of California and is not intended to be and should not be used by anyone other than those specified parties.

Lurie Besikof Lapidus & Company, LLP

Lurie Besikof Lapidus & Company, LLP
July 7, 2009

SECTION TWO

Executive Summary

SECTION TWO – EXECUTIVE SUMMARY

Overview

This report summarizes the results of our internal audit procedures related to the internal control structure with respect to the financial operations processing performed by the MAXIMUS California Healthy Families Project (the Project) during the period January 1, 2009 to March 31, 2009, and its compliance under contract 02MHF026 (Contract) with the State of California Managed Risk Medical Insurance Board (MRMIB) related to the California Healthy Families program (the Program). This report also covers tests performed relating to compliance with the Project's Business Rules, Process Procedures and Work Instructions over financial operations processing.

Our testing relied on statistically valid sampling of financial operations processing occurring during the period from January 1, 2009 to March 31, 2009, to discover any exceptions. Based on the tests performed, we believe that the financial operations processing processes in place during the period January 1, 2009 to March 31, 2009, produced the desired processing and monitoring results.

The report covers any exceptions noted during the testing procedures of financial operations processing and any recommendations to improve the controls in financial operations processing.

Assertions, Tests and Results

Our procedures were designed to test the financial operations processing performed by the Project and its compliance under the Contract with MRMIB related to the Program during the period.

In all cases where sampling was performed, a random selection algorithm was utilized. The sample quantity selected assumed either a finite population where possible or an infinite population with a 95% confidence level, a 5% expected error rate in the population, and a 5% error rate in sampling and testing.

The following are the assertions tested based on the contract provisions:

- **Posting Integrity**

Assertions

Postings for both the Healthy Families Program (HFP) and the Access for Infants and Mothers (AIM) program from subsidiary ledgers are controlled, complete and accurate to the appropriate General Ledger control accounts.

Postings for accruals for refunds in both programs are posted accurately from information obtained in the case management system.

Postings from outside (3rd party) systems for cash receipts are controlled, complete and accurate. The 3rd party systems include:

Program		3rd Party System
HFP and AIM	–	Aqurit Remittance Imaging
HFP	–	Credit Card (The Bank)
HFP	–	EFT
HFP	–	Western Union

Tests Performed

3rd Party System Imports

- Selected a sample from each of the 3rd party cash receipts systems for the period January 1, 2009 to March 31, 2009 and obtain the batch files transferred to Oracle Financial produced by the data import.
- Imported the files into the generalized audit software.
- Tested each day's import files by totaling the file to agree with the batch footer and the amount posted to the ledger.
- Agreed the total cash receipts per the 3rd party file to the General Ledger cash posting in Oracle Financials.
- Investigated any differences.

Postings from Subsidiary Ledgers and Financial Reconciliations

- Obtained the accounts receivable (along with the related accounts payable and adjustments) reconciliation for the control accounts included in the Accounts Receivable Sub-module for the period January 1, 2009 to March 31, 2009.
- Agreed the following amounts:
 - Opening balance per General Ledger agrees to the General Ledger control account
 - Ending balance per General Ledger agrees to the General Ledger control account
 - Total invoices posted agrees with the invoice posting register
 - Cash receipts agrees to the bank reconciliation for the period
 - Accounts receivable aging agrees with the balance in the General Ledger control account for the period
 - Total refunds posted agrees with the refunds authorized by the MRMIB posting
 - Cash disbursements agree to the bank reconciliation for the period
- Investigated all reconciling items for reasonableness and proper recording.
- **Accuracy of Participant Invoicing and the Related Financial Posting**
Financial integrity is maintained:
 - The correct amount is invoiced to the participants.
 - The correct amount is reported via accurate and complete recording of invoicing transactions in the ledger.

The total of the amount invoiced included on the monthly statements for any given month's premiums can be reconciled to postings in the financial records.

Tests Performed

Invoice Posting

- Obtained the statement files transferred to the mail house (KP Corp) as follows:

HFP	AIM
6/30/2008	6/30/2008
8/31/2008	8/31/2008
1/31/2009	1/31/2009
2/28/2009	2/28/2009

- Traced the total of the statement files obtained to the appropriate posting in the financial records for the month verifying that the total for the month is included.
- Investigated any differences

Invoicing

- Obtained an extract of the system database (both HFP and AIM) of all active cases (Active Case Population) for February 28, 2009 and newly enrolled cases for March 1, 2009.
- Selected sample of the cases from the Active Case Population (Case Sample).
- Traced the Case Sample to the monthly invoice history maintained in the case management system.
- Recomputed the amount invoiced based on the demographics maintained in the system and compared the amount recomputed to the amount invoiced.
- Investigated any differences

Posting to Individual Subscriber Accounts

- Reviewed the history for the account as it pertains to any discounts, free months, and prepayments. Re-computed any of the items and reviewed the documentation used to determine if the discounts, free months, and prepayments are appropriate and have been applied correctly.
- Investigated any differences.

- **Refunds**

Refunds made are appropriate and for the correct amount. Refunds made to applicants and participants are posted accurately to the financial records.

Tests Performed

Posting

- Obtained a copy of the file produced for the refunds batch for selected months.
- Traced the total of each refunds batch obtained for each month to the ledger posting.
- Investigated any differences

Accuracy of Refunds

- Selected a sample of the HFP and AIM refunds.
- Traced the sample items to the case management system and verified the refund was appropriate and for the correct amount.
- Investigate any differences.

- **Reporting Accuracy**

The financial reports provided to the MRMIB accurately reflect the information contained in the financial records.

Tests Performed

Accuracy of Reporting

- Obtained the month-end financial closing workpapers used to produce the financial reports
- Traced the individual account balances presented in the financial records to supporting workpapers.
- Traced the supporting workpaper amounts to 3rd party statements and/or internal reconciliations as appropriate
- Traced the amounts presented on the financial reports to the Trial Balance for the appropriate month-end
- Investigated any differences

Statements Prepared

- Compared the reports and financial information supplied to the MRMIB with the financial reporting contractual requirements.
- Investigated any differences.

Results

No exceptions were noted during the procedures.

Recommendations

While no exceptions were noted during our testing procedures, we do offer some suggestions to further strengthen the controls in the Project's financial operations. These suggestions include:

1. The development and implementation of a reconciliation process of the summary totals for all participant statements processed each month with the summary ledger postings for the corresponding month. This process will further verify the accuracy of both the participant statements and the amounts posted to the Project's financial records.
2. A formal confirmation process from the State of California of the amount swept by the State each night from the projects depository cash account at the Bank. At the present time the only source of the amount swept from the account is from the Bank. The confirmation process will assure that the amounts received each night by the State are consistent with the amount reported by the Bank.

MAXIMUS Response to Recommendations

The two recommendations have been accepted to improve and strengthen the Financial Operations controls. Below are the actions taken to comply with the recommendations:

1. Problem Statement 56165 has been created to address the opportunity for improvement raised in Recommendation #1. The reconciliation process will be elevated to the next level by reconciling the control accounts for the billing to the monthly statement files that are printed by the vendor.
2. To act in accordance with Recommendation #2, MAXIMUS will contact the MRMIB to request a confirmation process of the amount swept by the State each night from the cash account at the Bank.

Detailed results along with the tests performed are presented in Section Four - Results of this report.

SECTION THREE

Scope and Objective

SECTION THREE – SCOPE AND OBJECTIVE

Scope of the Internal Audit

The scope of this internal audit engagement was to examine the Project's stated controls and procedures developed to meet the objectives of the financial operations provisions of the Project's contract with the MRMIB during the period January 1, 2009 to March 31, 2009.

Internal Audit Objective

The overall objective of this internal audit engagement was to verify the Project's controls and procedures ensure that the rules of the contract with the MRMIB regarding the financial operations processes were implemented and operational during the period January 1, 2009 to March 31, 2009.

SECTION FOUR

Results

SECTION FOUR – RESULTS

The components, testing procedures performed and results are listed below.

Assertions	Internal Audit Procedures	Results										
Posting Integrity Postings for both the Healthy Families Program (HFP) and the Access for Infants and Mothers (AIM) program from subsidiary ledgers are controlled, complete and accurate to the appropriate General Ledger control accounts. Postings for accruals for refunds in both programs are posted accurately from information obtained in the case management system. Postings from outside (3rd party) systems for cash receipts are controlled, complete and accurate. The 3rd party systems include:												
	<table><tr><th>Program</th><th>3rd Party System</th></tr><tr><td>HFP and AIM</td><td>– Aqurit Remittance Imaging</td></tr><tr><td>HFP</td><td>– Credit Card (The Bank)</td></tr><tr><td>HFP</td><td>– EFT</td></tr><tr><td>HFP</td><td>– Western Union</td></tr></table>	Program	3rd Party System	HFP and AIM	– Aqurit Remittance Imaging	HFP	– Credit Card (The Bank)	HFP	– EFT	HFP	– Western Union	
Program	3rd Party System											
HFP and AIM	– Aqurit Remittance Imaging											
HFP	– Credit Card (The Bank)											
HFP	– EFT											
HFP	– Western Union											
1. Lockbox – Aqurit Remittance Imaging (Note that testing has already been performed for the period July 1, 2007 to December 31, 2008 during the performance of the SAS 70. Therefore, we will test the period from January 1, 2009 to March 31, 2009 during this engagement.)	<ul style="list-style-type: none">• <i>Selected</i> thirty-three (33) days (each for HFP and AIM) at random from the period January 1, 2009 to March 31, 2009 and Obtained the batch files transferred from the lockbox to Oracle Financial produced by the Aqurit Remittance Imaging software.• <i>Imported</i> the files into the generalized audit software.• <i>Tested</i> each day's lockbox file (for the days selected in the sample) by totaling the file to agree with the batch footer and the amount posted to the Ledger.	<ul style="list-style-type: none">• Obtained thirty-three (33) days from the population of fifty-nine (59) working days without exception.• Imported thirty-three (33) days selected into the generalized audit software without exception.• Tested each day's lockbox file by totaling the file to agree with the batch footer and the amount posted to the Ledger without exception.										

Assertions	Internal Audit Procedures	Results
	<ul style="list-style-type: none"> • <i>Agreed</i> the total cash receipts per the lockbox file to the General Ledger cash posting in Oracle Financials. • <i>Investigated</i> any differences. 	<ul style="list-style-type: none"> • Agreed without exception. • No exceptions noted.
2. Credit Card – The Bank (Note that testing has already been performed for the period July 1, 2007 to December 31, 2008 during the performance of the SAS 70. Therefore, we will test the period from January 1, 2009 to March 31, 2009 during this engagement.)	<ul style="list-style-type: none"> • <i>Selected</i> thirty-three (33) days at random from the period January 1, 2009 to March 31, 2009 and Obtained the batch files transferred from the Bank to Oracle Financial. • <i>Imported</i> the files into the generalized audit software. • <i>Tested</i> each day's Credit Card transaction file by totaling the file to agree with the batch footer and the amount posted to the Ledger. • <i>Agreed</i> the total cash receipts per the Bank file to the General Ledger cash posting in Oracle Financials. • <i>Investigated</i> differences. 	<ul style="list-style-type: none"> • Obtained thirty-three (33) days from the population of fifty-nine (59) working days without exception. • Imported thirty-three (33) days selected into the generalized audit software without exception. • Tested each day's credit card file from the Bank by totaling the file to agree with the batch footer and the amount posted to the Ledger without exception. • Agreed the total cash receipts per the Bank file without exception. • No exceptions noted.

Assertions	Internal Audit Procedures	Results
3. Western Union (Note that testing has already been performed for the period July 1, 2007 to December 31, 2008 during the performance of the SAS 70. Therefore, we will test the period from January 1, 2009 to March 31, 2009 during this engagement.)	<ul style="list-style-type: none"> Selected thirty-three (33) days at random from the period January 1, 2009 to March 31, 2009 and Obtained the batch files transferred from Western Union receipts. <i>Imported</i> the files into the generalized audit software. <i>Tested</i> each day's Western Union transaction file by totaling the file to agree with the batch footer and the amount posted in Oracle Financials. <i>Agreed</i> the total cash receipts per Western Union file to the General Ledger cash posting in Oracle Financials. <i>Investigated</i> differences. 	<ul style="list-style-type: none"> Obtained thirty-three (33) days from the population of fifty-nine (59) working days without exception. Imported thirty-three (33) days selected into the generalized audit software without exception. Tested each day's credit card file from Western Union by converting and totaling the file to agree with the batch footer and the amount posted to the Ledger without exception. Agreed the total cash receipts per the Western Union file without exception. No exceptions noted.
4. EFT	<ul style="list-style-type: none"> <i>Obtained</i> all three (3) monthly EFT generation files from the period January 1, 2009 to March 31, 2009. <i>Imported</i> the files into the generalized audit software. <i>Tested</i> each month's EFT transaction file by totaling the file to agree with the batch footer and the amount posted to the Ledger. 	<ul style="list-style-type: none"> Obtained all three (3) monthly EFT generation files without exception. Imported all three (3) monthly EFT generation files into the generalized audit software without exception. Tested each month's EFT generation files by totaling the file to agree with the batch footer and the amount posted to the Ledger without exception.

Assertions	Internal Audit Procedures	Results
	<ul style="list-style-type: none"> • <i>Agreed</i> the total EFT files to the General Ledger cash posting in Oracle Financials. • <i>Agreed</i> the total EFT files to the bank statement deposits. 	<ul style="list-style-type: none"> • Agreed the total cash receipts per the EFT file without exception. • Agreed the total cash receipts to the bank deposit file without exception.
Postings form Subsidiary Ledgers and Financial Reconciliations Appropriate financial ledger reconciliations are performed including the : <ul style="list-style-type: none"> • Regularly complete and accurate reconciling of the detailed sub-ledgers (monthly). • Review and if appropriate follow-up of reconciling items to assure that that they do not represent any issues associated with items that may be a result of posting errors or problems. • Cash reconciliations at a minimum monthly. 		
1. Cash account reconciliations.	<ul style="list-style-type: none"> • <i>Obtained</i> the cash reconciliations for all bank accounts for the period January 1, 2009 to March 31, 2009. • <i>Agreed</i> the following amount: <ul style="list-style-type: none"> ▪ Balance per bank to the appropriate bank statement ▪ Balance per book to the appropriate General Ledger control account ▪ General Ledger activity to the activity posted in the General Leger control account ▪ Bank activity included on the bank statement • <i>Investigated</i> all reconciling items for reasonableness and proper recording. 	<ul style="list-style-type: none"> • Obtained cash reconciliations for all bank accounts for the period January 1, 2009 to March 31, 2009 without exception • Agreed the amounts contained on the reconciliations to: <ul style="list-style-type: none"> ▪ Appropriate bank statements ▪ Appropriate General Ledger control accounts ▪ Balances in the General Leger control accounts ▪ Bank activity (where appropriate) included on the bank statement No exceptions were noted. • No exceptions noted.

Assertions	Internal Audit Procedures	Results
2. Accounts Receivable reconciliations including all control accounts associated with the Oracle Financials Accounts Receivable Sub-module.	<ul style="list-style-type: none"> • <i>Obtained</i> the accounts receivable reconciliation for the accounts receivable control account and all related accounts included in the Accounts Receivable Sub-module for the period January 1, 2009 to March 31, 2009. • <i>Agreed</i> the following amounts: <ul style="list-style-type: none"> ▪ Opening balance per General Ledger agrees to the General Ledger control account ▪ Ending balance per General Ledger agrees to the General Ledger control account ▪ Total invoices posted agrees with the invoice posting register ▪ Cash receipts agrees to the bank reconciliation for the period ▪ Accounts receivable aging agrees with the balance in the General Ledger control account for the period • <i>Investigated</i> all reconciling items for reasonableness and proper recording. 	<ul style="list-style-type: none"> • Obtained accounts receivable reconciliations for accounts receivable and all associated accounts for the period January 1, 2009 to March 31, 2009 without exception • Agreed the amounts contained on the reconciliations to the: <ul style="list-style-type: none"> ▪ Opening balance per General Ledger control account ▪ Ending balance per General Ledger control account ▪ Total invoices posted ▪ Cash receipts per bank reconciliation ▪ Accounts receivable aging No exceptions were noted. • No exceptions noted.

Assertions	Internal Audit Procedures	Results
3. Accounts Payable reconciliations (these accounts are included in 2 above).	<ul style="list-style-type: none"> • <i>Obtained</i> the accounts payable reconciliation for the accounts payable control account for the period January 1, 2009 to March 31, 2009. • <i>Agreed</i> the following amounts <ul style="list-style-type: none"> ▪ Opening balance per General Ledger agrees to the General Ledger control account ▪ Ending balance per General Ledger agrees to the General Ledger control account ▪ Total refunds posted agrees with the refunds authorized by the MRMIB posting ▪ Cash disbursements agree to the bank reconciliation for the period • <i>Investigated</i> all reconciling items for reasonableness and proper recording. 	<ul style="list-style-type: none"> • Obtained accounts receivable reconciliations for accounts payable and all associated accounts for the period January 1, 2009 to March 31, 2009 without exception • Agreed the amounts contained on the reconciliations to the: <ul style="list-style-type: none"> ▪ Opening balance per General Ledger control account ▪ Ending balance per General Ledger control account ▪ Total refunds posted ▪ Cash disbursements per bank reconciliation No exceptions were noted. • No exceptions noted.

Assertions	Internal Audit Procedures	Results
Accuracy of Participant Invoice and the Related Financial Posting Financial integrity is maintained: <ul style="list-style-type: none"> The correct amount is invoiced to the participants The correct amount is reported via accurate and complete recording of invoicing transactions in the ledger The total of the amount invoiced included on the monthly statements for any given months premiums can be reconciled to postings in the financial records.		
1. Invoicing Test to assure that monthly invoicing is appropriately occurring and posted to the correct account.	<ul style="list-style-type: none"> <i>Obtained</i> an extract of the system database of all cases for February 28, 2009 and newly enrolled cases for March 1, 2009. <i>Selected</i> a sample of the cases for further detailed testing (the Case Sample). <i>Traced</i> the Case Sample to the monthly invoicing in the participant case file and the Oracle Financials posting. <i>Investigated</i> differences 	<ul style="list-style-type: none"> Obtained the extract of cases without exception. Selected seventy-three (73) cases from the four-hundred ninety-eight thousand three-hundred ninety-three (498,393) case population without exception. Traced the seventy-three (73) cases in the sample to the participant record without exception. No exceptions noted.

Assertions	Internal Audit Procedures	Results
2. Computation testing Test to assure that the amount being invoiced is appropriately calculated.	<ul style="list-style-type: none">• <i>Recomputed</i> the subscriber contributions for cases in the Case Sample based the last AER (or at application if prior to the 1st year anniversary)• <i>Reviewed</i> the history for the account as it pertains to any discounts, free months, and prepayments. Recomputed any of the items and review the documentation used to determine if the discounts, free months, and prepayments are appropriate and have been applied correctly.• <i>Investigated</i> any differences.	<ul style="list-style-type: none">• Recomputed the subscriber contributions for cases in the Case Sample and agreed them to the amounts being billed without exception.• No exceptions were noted during the reviewed of the account history as it pertains to any discounts, free months, and prepayments.• No exceptions noted.

Assertions	Internal Audit Procedures	Results
Refunds Refunds are made are appropriate and for the correct amount. Refunds made to applicants and participants are posted accurately to the financial records.		
1. Verify on a test basis that the total of the Invoice Population for any given months premiums can be reconciled to the financial ledger.	<ul style="list-style-type: none"> • <i>Obtained</i> a copy of the file produced for the refunds batch for selected months. • <i>Traced</i> the total of the refunds batch for each month to the ledger posting. • <i>Investigated</i> differences 	<ul style="list-style-type: none"> • Obtained a copy of the file produced for the refunds batch without exception. • Traced the total of the refunds batches to the ledger postings without exception. • No exceptions noted.
2. Verify that the refunds were appropriately calculated, for the correct amount, and posted to the right account.	<ul style="list-style-type: none"> • <i>Selected</i> a statistically valid sample of the HFP and AIM refunds obtained above. • <i>Traced</i> the sample items to the system verifying the refunds were appropriate and for the correct amount. • <i>Investigated</i> any differences. 	<ul style="list-style-type: none"> • Selected the samples without exception as follows: <ul style="list-style-type: none"> ▪ Sixty-eight (68) for AIM from the nine-hundred eighty-three (983) refund population. ▪ Seventy-three (73) for HFP from the seventeen-thousand six-hundred seventy-two (17,672) refund population. • Traced the samples to the system and verified that the refunds were appropriate and for the correct amount without exception. • No exceptions noted.

Assertions	Internal Audit Procedures	Results
Reporting Accuracy The financial reports provided to the MRMIB accurately reflect the information contained in the financial records.		
1. Accuracy of Reporting Traced the information in each of the monthly Financial Statements to the trial balances produced by the accounting system. For each month-end for the period January 1, 2009 to March 31, 2009 perform.	<ul style="list-style-type: none"> • <i>Obtained</i> the month-end workpapers used to produce the financial reports • <i>Obtained</i> the Trial Balance for each month • <i>Traced</i> the individual account balances presented on the Trial Balance to the General Ledger control account ending balance for that period • <i>Traced</i> the amounts presented on the financial reports to the Trial Balance for the appropriate month-end • <i>Traced</i> the amounts on the Trial Balance to the General Ledger activity report produced by Oracle Financials • <i>Investigated</i> any differences 	<ul style="list-style-type: none"> • Obtained the month-end workpapers without exception. • Obtained the Trial Balances without exception. • Traced to the individual account balances presented on the Trial Balance to the General Ledger control accounts without exception. • Traced to the amounts presented on the financial reports from the Trial Balance without exception. • Traced the amounts on the Trial Balance to the General Ledger activity report without exception. • No exceptions noted.
2. Statements supplied to the MRMIB	<ul style="list-style-type: none"> • <i>Compared</i> the reports and financial information supplied to the MRMIB with the financial reporting contractual requirements. • <i>Investigated</i> any differences. 	<ul style="list-style-type: none"> • Compared the reports and financial information supplied to the MRMIB with the financial reporting contractual requirements without exception. • No exceptions noted.